Income Tax - Intermediary fund (Child care contribution income tax credit)

Does a contribution to an intermediary organization fund dedicated 100% to qualified child care organizations qualify for the child care contribution income tax credit?

Yes, when 100% of the contributions to a fund established by a charitable organization are passed to qualified child care organizations, donations to the fund will qualify for the child care contribution credit. Generally the fund would apply for a registration number to use when certifying donations for the tax credit.

If qualified child care organizations ultimately receiving the contributions are not 100% eligible for the credit (e.g. they also provide care for children over age 12), then the percentage of the contributions that qualify for the credit must be determined to allocate the credit accordingly. Any grandfather provisions of the credit will apply to the underlying organizations involved, not the intermediary fund.

Example: United Child Care Fund distributes all donations equally to three child care centers. Child care center A cares strictly for children 12 or younger. Child care centers B and C use 80% of all resources to care for children 12 or younger and 20% to care for children over age 12. Child care center B is not a grandfathered organization for the tax credit, but child care center C is grandfathered because it received donations in 2003 that qualified for the child care contribution credit in that year. The tax credit will be computed using 93.32% of contributions to the United Child Care Fund, which is calculated as follows:

Child care center A: 100% of 33.33% = 33.33%

Child care center B: 80% of 33.33% = 26.66%

Child care center C: 100% of 33.33% = 33.33%

Total percentage of contributions eligible for the tax credit = 93.32%

Therefore, a \$1,000 contribution to the fund would receive a \$467 tax credit (50% of \$933).